



Adequacy of Benefits

Initial Consideration

WASHINGTON STATE
Law Enforcement Officers' and Fire Fighters'
Plan 2 Retirement Board

October 27, 2004

Outline

- How well does LEOFF Plan 2 meet retirees' needs?
 - Income Replacement: How much does a retiree need to maintain standard of living?
 - Income Sources: Three-Legged Stool
 - Inflation: How well does a retiree maintain standard of living during retirement?

Income Replacement Rates

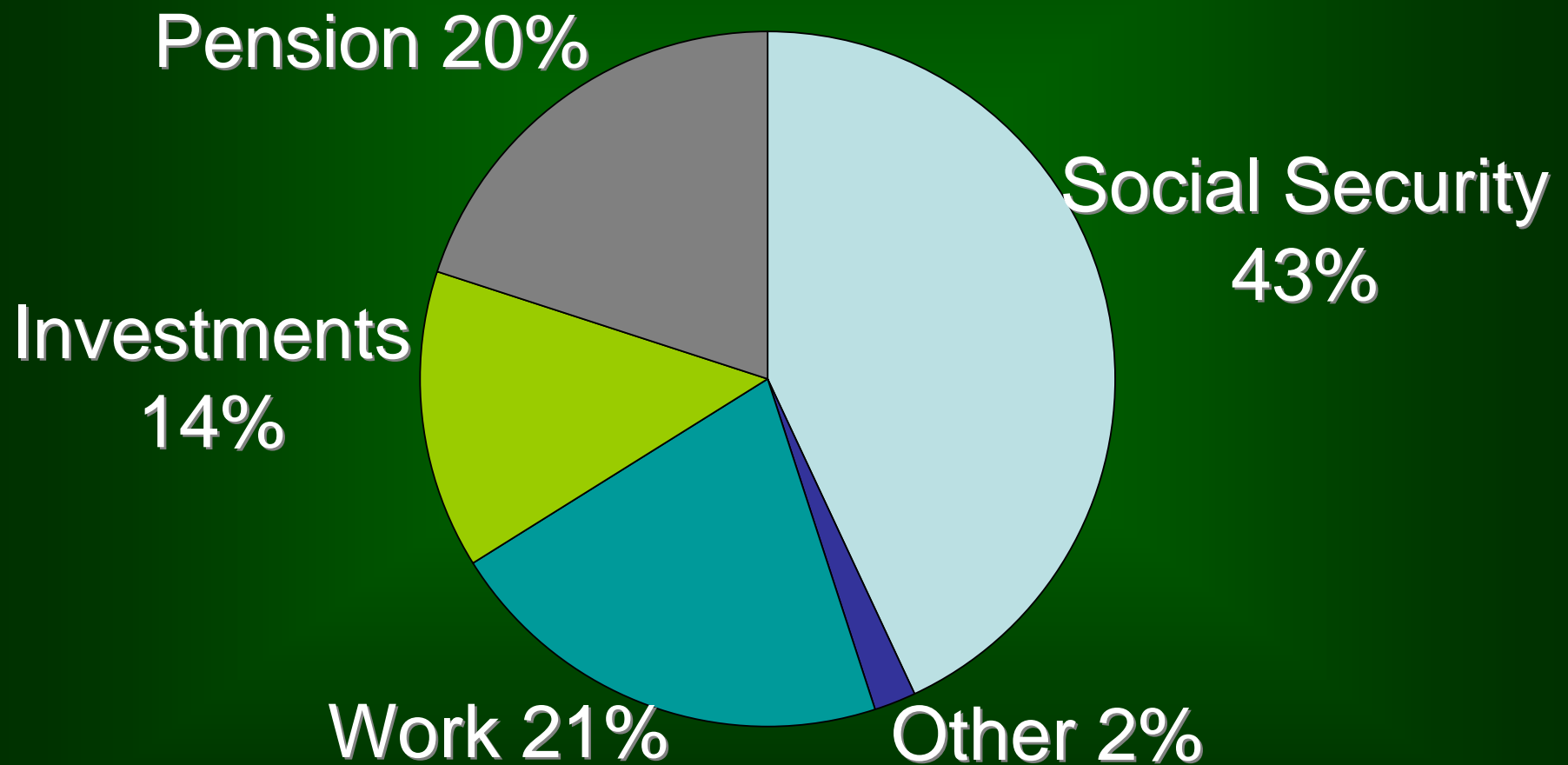
- Maintain same standard of living in retirement
- Income replacement rate - 60% to 90%
- Income needs lower in retirement
- Multiple factors affecting individual needs

Income Sources

Three-Legged Stool

- Social Security
- Employer Pension
- Personal Savings

Income Sources



Income Sources

Social Security

- Has been strongest leg of stool
- Long-term solvency issues
 - Reduced benefits
 - Increased taxes
- Replaces 41.3% of income on average
- Replace only 29.9% by 2030

Income Sources

Social Security and LEOFF Plan 2

- Association of Washington Cities
2004 Police/Fire Survey
- 123 Respondents with Law Enforcement
members
- 93 Respondents with Fire Fighter
members

Income Sources

Social Security and LEOFF Plan 2

- 74% of Law Enforcement Officers covered
- 8% of Fire Fighters covered
- Uncovered members must rely more on pension, savings, and post-retirement employment.

Income Sources

Employer Pension

- LEOFF Plan 2
- Deferred Compensation

Income Sources

Personal Savings

- Unrealistic expectations
- Confidence of comfortable retirement
- Savings levels very low
- Few know what's needed
- Education changes behavior

Inflation

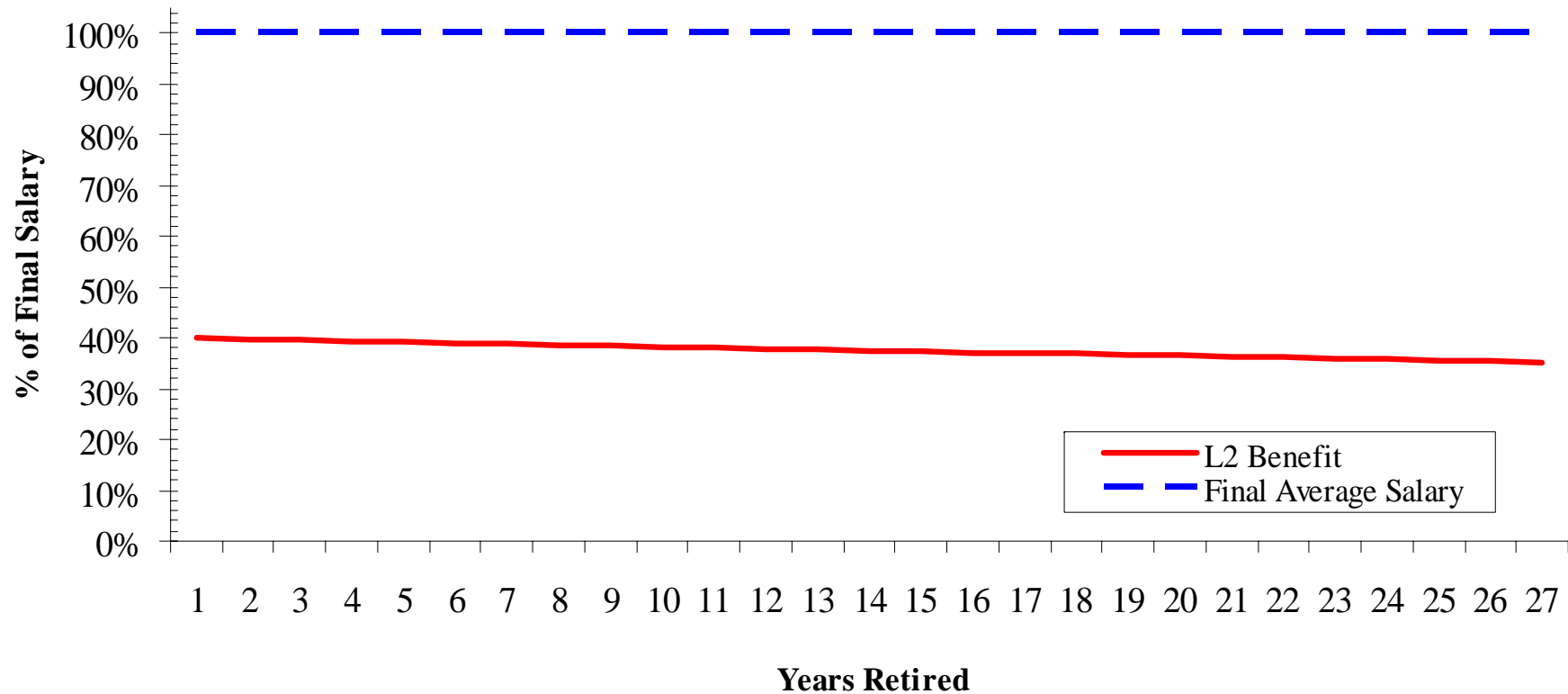
- How well is a LEOFF Plan 2 benefit protected from inflation?
- Two Areas of Impact
 - General Inflation
 - Health Care Costs

LEOFF Plan 2 Replacement

- LEOFF Plan 2 Examples
- Example Assumptions
 - Current LEOFF Plan 2 Provisions
 - Retirement at age 53 with 20 years
 - Final Average Salary (FAS) = \$65,000
 - Inflation at 3.5% annually (Actuarial Assumption)
 - Annual COLA increase 3%
 - Social Security beginning at 66

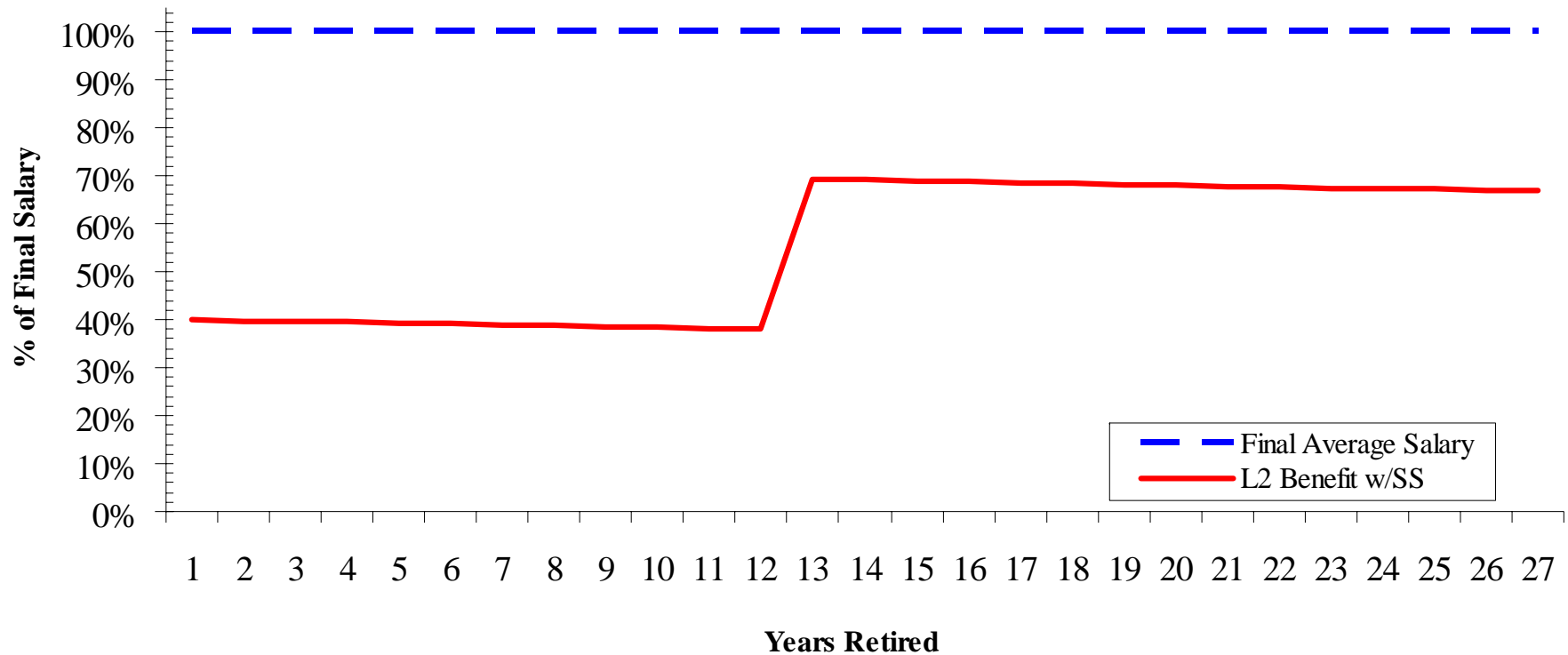
LEOFF Plan 2 Replacement Rate

**LEOFF Plan 2 Benefits as % of Final Salary
After 20 Years of Service at Age 53**



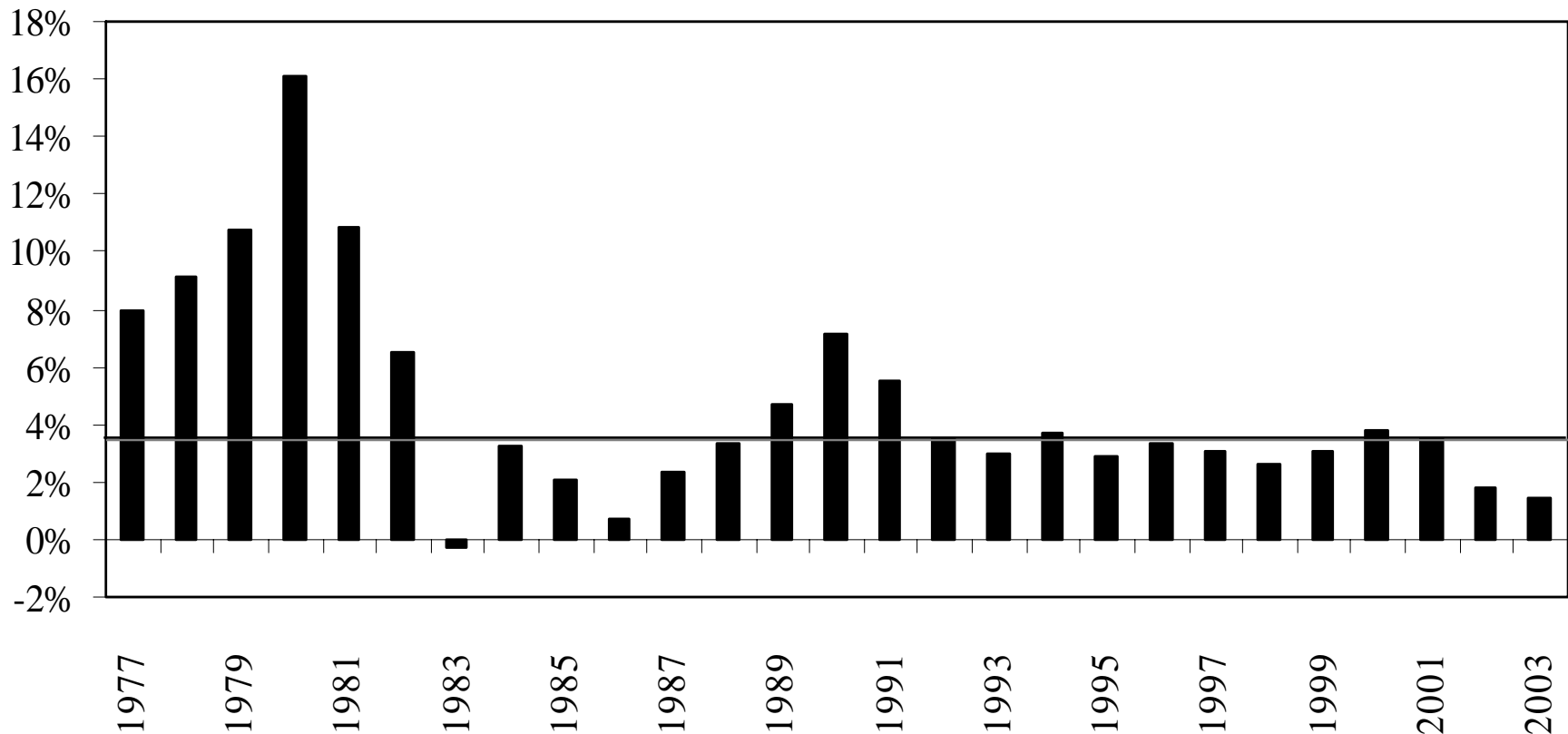
LEOFF Plan 2 Replacement Rate

**LEOFF Plan 2 Benefits with Social Security as % of Final Salary
After 20 Years of Service at Age 53**



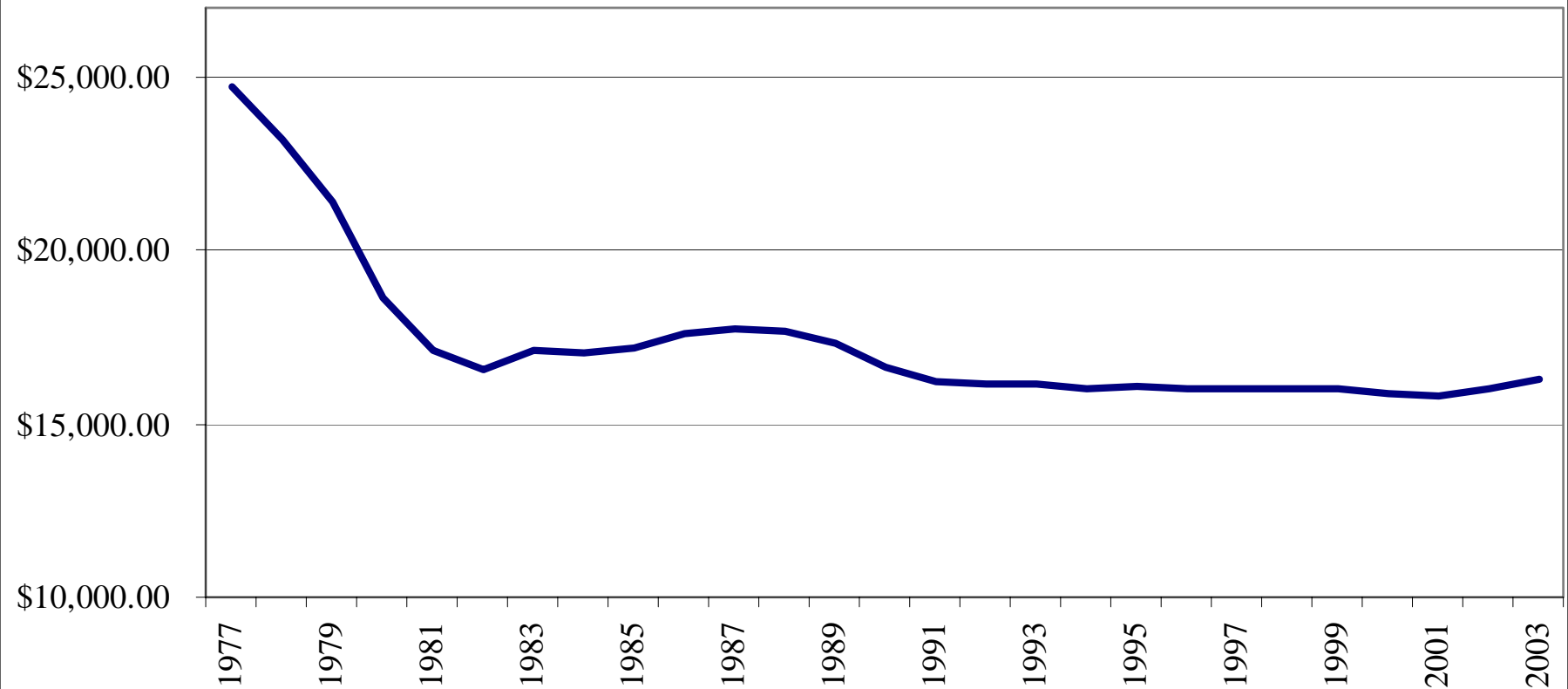
Historical Inflation

**Annual Percent Changes CPI-W
1977-2003**



Inflation Impact

**Actual Impact of Inflation
1977-2003**



Health Care Costs

- Higher expenditures for Retirees
 - 5.2% of Expenditures for Age 45-54
 - 12.8% of Expenditures for Age 65+
- Costs Increasing
 - Premiums nationwide up 13% in 2001, 14.9% in 2003, and 14.3% in 2004
 - Health Care accounts for 15.5% of GDP
 - May reach 18.4% of GDP in 10 years

Questions?